Valuation of Inventory at Selling Price

K.A.I. Priyanganie & K.D.G.N. Wijesinghe
i.hiruiresha@gmail.com & nayomi@kln.ac.lk

Introduction

PQR limited is limited liability Company which is engaging a retail business as a super market with more than 300 Outlets Island wide. It imports and locally purchases groceries, provisions, liquor, house hold items and fruits & vegetables, and distribute to the outlets using 5 warehouses. Normally they conduct a physical stock verification at the end of every financial year of assessment. On that time of stock count, the company value the stock at selling price.

Discussion of the Issue

The company value their physical stock at selling price. However the closing stock valued at selling price cannot record in financial statements since it violates LKAS 2– Inventory standard. As per the paragraph 9 of LKAS 2,

"Inventories shall be measured at the lower of the cost or net realizable value"

Therefore the inventory should be measured at the cost or net realizable value. For the accounting purpose the company cut off 12% as profit margin from the total bulk of physical stock to generate the cost which. This practice is not more valid since it does not represent actual cost or NRV of the stock

Implication of the Issue

Company's closing stock may be overstated or understated because of this practice of the company. As a result of that company's profit also can be overstated or understated. Further, in another side this is violation of Lanka Accounting Standards - 2 of Inventory.

Conclusion and Recommendation

Company should value physical stock at cost or NPV. For the provision purpose, company should practice first in first out method in both warehouses and outlets. That method should not only be a stock valuation method and it should be the stock distribution practice of the company. Then the company know last in stocks are in the warehouses and the outlets and then can value stocks and last in purchases prices.